

United States District Court,
S.D. New York.
LOGICOM INCLUSIVE, INC. d/b/a Logicom,,
Inc., Stephen Boriotti and Richard Rosen,
Plaintiffs,

v.

W.P. STEWART & CO., William P. Stewart,
John C. Russell, Edward Butler and Rocco Macri,
Defendants.

No. 04 Civ. 0604(CSH).

Not Reported in F.Supp.2d, 2004 WL 1781009
Aug. 10, 2004.

MEMORANDUM OPINION AND ORDER

HAIGHT, Senior J.

***1** This case involves a dispute over ownership and use of two computer programs. Plaintiff Logicom Inclusive, Inc. (“Logicom”) along with individual plaintiffs Stephen Boriotti and Richard Rosen allege that defendants W.P. Stewart & Co., Inc. (“WPS”), William P. Stewart, John C. Russell, Edward Butler, and Rocco Macri infringed their exclusive rights under the Copyright Act of 1976, 17 U.S.C. § 101, *et seq.* (the “Copyright Act” or the “Act”) to create derivative works of the programs. Plaintiffs also bring state and common law actions for conversion, unjust enrichment, and malicious interference with contract rights.

Defendants move to dismiss plaintiffs' complaint pursuant to Fed.R.Civ.P. 12(b)(6), for failure to state a cognizable claim. Defendants also move pursuant to Fed.R.Civ.P. 12(b)(5) to dismiss plaintiffs' complaint against individual defendants Stewart, Russell, and Macri for insufficiency of service of process. Plaintiffs oppose these motions and cross-move to amend the Summons and Complaint to add W.P. Stewart & Co., Ltd. and Stefan Stefanowski as defendants, and to extend

the time to effect service of process. This Opinion resolves all motions.

I. PARTIES AND JURISDICTION

Logicom is a software development and services company incorporated and with its principal place of business in the State of New York. Boriotti is a resident of New York and Logicom's president. Rosen is also a New York resident and serves as Logicom's treasurer.

WPS is a publicly traded financial services firm, incorporated and with its principal place of business in the State of New York. William P. Stewart is WPS's president, John C. Russell its chief executive officer, Edward Butler its chief information officer, and Rocco Macri its chief financial officer. All are New York residents.

Subject matter jurisdiction over the case is conferred by 28 U.S.C. § 1338(a), which gives federal courts original jurisdiction over civil actions arising under the Copyright Act, and 28 U.S.C. § 1367(a), granting district courts supplemental jurisdiction over state and common law claims that form part of the same case or controversy as the underlying federal action. Venue lies in the Southern District of New York under 28 U.S.C. § 1391(b), as all defendants reside therein.

II. FACTS

For purposes of this motion, Plaintiff's well-pleaded allegations of fact will be taken as true, in accordance with the standard of review for a motion to dismiss. *See Papasan v. Allain*, 478 U.S. 265, 283 (1986). In addition, in accordance with the standards set forth in Part III, *infra*, I also take judicial notice of the public documents identified at the end of this section.

From 1985 to March 2003, WPS hired Logicom as an independent contractor, to develop and service the software infrastructure upon which WPS managed its business. During the course of this 18 year history, plaintiffs created and developed approximately a dozen software programs, tailored to WPS's specific needs.

***2** Though Logicom had been conducting business since 1985, it was first incorporated, as "Logicom, Inc.," in October 1990. On March 23, 1994, Logicom was dissolved by State proclamation for failure to pay state franchise taxes. According to Rosen, neither he nor Boriotti were aware of their company's dissolution until early 2003. In the meantime, the individual plaintiffs continued in good faith, to conduct business, file corporate tax returns, and pay franchise taxes. Plaintiffs also received official state correspondence addressed to Logicom after the corporation had been dissolved.

In 1995, plaintiffs created the two software programs at issue in this case. Entitled "Order Entry System" and "VisualTrader" (the "computer programs" or "programs"), both were tailored for WPS's business. These programs were not registered with the United States Copyright Office until 2002.

During the course of their business relationship, plaintiffs made "regular, even daily" modifications to their programs. These modifications were necessary for the programs to be of value to defendants' changing needs. Some of these modifications were made by Boriotti and Rosen themselves. At other times, Logicom hired independent contractors to make these software adjustments and perform other services on site at WPS. One such independent contractor plaintiffs hired was Stefan Stefanowski.

The relationship between the parties remained amicable until 2001, when WPS's auditors, aware that there was no formal contract between the companies, urged defendants to enter into such a contract. By November 2002 various WPS officers, including Butler and Macri, entered into negotiations with plaintiffs for a licensing arrangement that would allow WPS to access Logicom's source code and modify its software, and a possible WPS buyout of Logicom's contracts with its subcontractors, including Stefanowski. As these negotiations were taking place, plaintiffs obtained Certificates of Registration from the United States Copyright Office for the computer programs, Order Entry System and Visual Trader, both dated December 20, 2002. Meanwhile, defendants also attempted to replace Logicom's software with alternative software developed by other companies, but were unsuccessful in those efforts.

Negotiations continued through January and February 2003, between Boriotti, Rosen, and Logicom's counsel for the plaintiffs, and Butler and Macri and WPS's counsel for the defendants. By February 2003, the parties reached a tentative agreement.

Shortly thereafter, Russell, who evidently did not take part in the negotiations, informed the plaintiffs that he had rejected this agreement. Likewise, Stewart notified the plaintiffs that the terms of agreement negotiated by Butler and Macri were a "mistake," and that another arrangement would need to be worked out, under which WPS could acquire greater rights to Logicom's software. Finally, on March 9, 2003, WPS terminated its relationship with Logicom, and Macri, under orders given by Russell, directed Logicom personnel to leave the WPS premises.

***3** Between April 1999 and March 2003, WPS

had paid Logicom approximately \$70,000 a month for its services.

For several weeks after they had been terminated, Boriotti and Rosen received pager alerts triggered by Logicom's software running on WPS computers. The software had been programmed to send pager alerts to plaintiffs when encountering conditions which required modification. Due to these pager alerts, plaintiffs became aware of the fact that defendants continued to modify plaintiffs' software even after terminating their relationship with plaintiffs. Plaintiffs further suspected that defendants had hired Stefanowski to service the programs and had obtained proprietary knowledge and passwords from him to get access to the source code.

Sometime in early 2003, plaintiffs finally became aware that their company had been dissolved, when a lender to whom they applied for a line of credit brought it to their attention.¹ When plaintiffs initiated action to reinstate their corporate charter, they discovered that the name Logicom, Inc. was already in use by another company. Consequently, they changed their name to "Logicom Inclusive, Inc." On May 5, 2003, the State of New York reinstated plaintiffs' corporate charter under this new name.

In their original complaint, plaintiffs allege four causes of action against defendants, as follows: Count I states a claim against defendants for willful infringement of plaintiffs' copyrights in the software programs "Order Entry System" and "Visual Trader" in violation of the Copyright Act. Count II is a claim for conversion based on defendants' wrongful possession of programs and conversion of the programs to their own use. Count III is a claim for unjust enrichment, and

alleges that a constructive contract existed between Logicom and WPS which defendants breached by appropriating Logicom's software for its own use. Count IV states a claim for malicious interference with Logicom's consulting contract with Stefanowski. Plaintiffs' proposed amended complaint seeks to add a fifth cause of action against Stefanowski for breach of contract, thereby adding him as a party defendant.²

Finally, defendants request the Court to take judicial notice under Federal Rule of Evidence 201 of the following public documents, on file with the State of New York:

Certificate of Incorporation of Logicom, Inc., dated October 17, 1990;

Dissolution by proclamation, dated March 23, 1994, and Annulment of Dissolution, dated May 8, 2003; and

Certificate of Amendment, dated May 8, 2003, changing corporation's name from Logicom Inc. to Logicom Inclusive, Inc.

III. STANDARD OF REVIEW

On a motion to dismiss a complaint under Rule 12(b)(6) for failure to state a claim upon which relief can be granted, the trial court's function "is merely to assess the legal feasibility of the complaint, not to assay the weight of the evidence which might be offered in support thereof." *Geisler v. Petrocelli*, 616 F.2d 636, 639 (2d Cir.1980); see *Ricciuti v. N.Y.C. Transit Authority*, 941 F.2d 119, 124 (2d Cir.1991). "[T]he issue is not whether a plaintiff will ultimately prevail but

¹ It is not clear whether plaintiffs came upon their revelation prior to or after being terminated by WPS.

² Plaintiff's proposed amended complaint also would add ", Inc." to "W.P. Stewart & Co." in the caption and would add W.P. Stewart & Co., Ltd., the parent company of WPS Inc., as a defendant.

whether the claimant is entitled to offer evidence to support the claims.” *Scheuer v. Rhodes*, 416 U.S. 232, 236 (1974). The district court should grant a Rule 12(b)(6) motion “only if it is clear that no relief could be granted under any set of facts that could be proved consistent with the allegations.” *Hishon v. King & Spalding*, 467 U.S. 69, 73 (1984) (citing *Conley v. Gibson*, 355 U.S. 41, 45-46 (1957)).

***4** Except in certain circumstances, consideration of a motion to dismiss the complaint must focus on the allegations contained on the face of the complaint. See *Cortec Industries, Inc. v. Sum Holdings, L.P.*, 949 F.2d 42, 47 (2d Cir.1991), cert. denied, 112 S.Ct. 1561 (1992); *Kramer v. Time Warner, Inc.*, 937 F.2d 767, 773 (2d Cir.1991). On a motion to dismiss, a district court must accept plaintiff’s well-pleaded factual allegations as true, *Papasan*, 478 U.S. at 283, and the allegations must be “construed favorably to the plaintiff.” *LaBounty v. Adler*, 933 F.2d 121, 123 (2d Cir.1991). “[A] Rule 12(b)(6) motion to dismiss need not be granted nor denied in toto but may be granted as to part of a complaint and denied as to the remainder.” *Decker v. Massey-Ferguson, Ltd.*, 681 F.2d 111, 115 (2d Cir.1982).

In considering a motion to dismiss pursuant to 12(b)(5) for insufficiency of service of process, “a Court must look to matters outside the complaint to determine whether it has jurisdiction.” *Darden v. DaimlerChrysler N. Am. Holding Corp.*, 191 F.Supp.2d 382, 387 (S.D.N.Y.2002). “Conclusory statements that a defendant was properly served are insufficient to overcome a defendant’s sworn affidavit that he was never served with process.” *Howard v. Klynveld Peat Marwick Goerdeler*, 977 F.Supp. 654, 658 (S.D.N.Y.1997), *aff’d*, 173 F.3d 844 (2d Cir.1999). When a defendant raises a 12(b)(5) challenge to the sufficiency of service of process, “the plaintiff bears the burden of proving

its adequacy.” *Preston v. New York*, 223 F.Supp.2d 452, 466 (S.D.N.Y.2002).

Finally, Fed.R.Evid. 201(b) allows the Court to take judicial notice of facts “not subject to reasonable dispute” that are either “(1) generally known within the territorial jurisdiction of the trial court or (2) capable of accurate and ready determination by resort to sources whose accuracy cannot reasonably be questioned.” Courts may take notice of “the contents of relevant public disclosure documents ... required by law to be filed” and “are relevant not to prove the truth of their contents but only to determine what the documents stated.” *Kramer v. Time Warner, Inc.*, 937 F.2d 767, 774 (2d Cir.1991).

IV. DISCUSSION

I will first address plaintiffs’ federal claim for copyright infringement, followed by plaintiffs’ state law claims. Third I will consider the sufficiency of service of process, and lastly, plaintiffs’ request to amend the complaint.

A. Federal Copyright Claim

1) Are plaintiffs’ copyrights valid?

To bring a claim for copyright infringement, a plaintiff must establish, first, the existence of a valid copyright, and second, that the defendant has infringed the copyright. *Whimsicality, Inc. v. Rubie’s Costume Co.*, 891 F.2d 452, 455 (2d Cir.1989). Defendants’ first allegation is that plaintiffs do not hold valid copyrights in the two computer programs at issue in this case.

a. Seven-year hiatus

***5** Plaintiffs have certificates of registration for the two computer programs at issue in this case.

Copies of the certificates have been attached to plaintiffs' complaint. Both certificates identify 1995 as the "year in which the creation of this work was completed," and identify the author as "Logicom, Inc." The sections in which the author is to list the "Date and Nation of First Publication" have been left blank. Finally, both certificates are dated December 20, 2002.

At first blush, plaintiffs' certificates of registration of the two computer programs would appear to establish the validity of plaintiffs' copyrights. However, 17 U.S.C. § 410(c) states:

In any judicial proceedings the certificate of a registration made before or within five years after first publication of the work shall constitute prima facie evidence of the validity of the copyright and of the facts stated in the certificate. The evidentiary weight to be accorded the certificate of a registration made thereafter shall be within the discretion of the court.

Defendants argue that since the programs were not registered until 2002, seven years after the programs were completed, the certificates have been stripped of their presumptive validity. They further argue that this shifts the burden to plaintiffs to establish the validity of their copyright ownership, a burden which, defendants contend, they have failed to meet.

In response, plaintiffs assert that the seven year gap between the "completion" of plaintiffs' programs and the date of registration is misleading. In fact, plaintiffs argue, both programs received "major overhauls" as recently as 2002 and 2001.³ Following plaintiffs' logic, the actual

"completion date" for each program as they currently exist falls within the statutorily assigned five-year period, and therefore the certificates of registration deserve to be considered prima facie evidence of the validity of the two copyrights.

Plaintiffs' response to defendants' allegation may have taken them out of the frying pan and into the fire. For it leads one to ask: precisely which versions of the programs are the certificates of registration protecting? Both certificates state that the respective programs were completed in 1995. Defendants assert therefore that post-1995 versions of the programs have not yet been registered with the U.S. Copyright Office. If this is so, then plaintiffs may not be entitled to proceed with their action until proper registration has been completed.⁴

Plaintiffs criticize defendants' suggestion as unworkable, noting that there are no standards for determining at what point a software program has been modified enough to call for a new copyright registration. ("However extensively the programs were modified from time to time, they remain the same programs, with the same names or titles, and serving the same purposes as their original versions." Plaintiff's Reply Memorandum in Support of Cross Motion, at 1.)

***6** While plaintiffs may be correct in that assertion, these same principles lead to the conclusion that the "major overhauls" to the

data architecture was completed." Meanwhile, "Order Entry System" received "major updating in 2001" and "an overhaul to a new version in a new architecture" in mid-2002. (Rosen Decl. ¶ 21)

- 4 17 U.S.C. § 411 states "no action for infringement of the copyright in any work shall be instituted until registration of the copyright claim has been made in accordance with this title," subject to exceptions not applicable to this case. Pursuant to § 412, plaintiffs may also lose any rights to award of statutory damages or attorneys' fees.

3 According to Rosen, Visual Trader was "thoroughly rewritten" in 1999 and early 2002, and "completely overhauled in 2001, when a rewritten version with a new

computer programs made between 1999 and 2002 do not narrow the seven-year gap between the date of completion and date of registration. Plaintiffs cannot have it both ways. Just as there are no standards for determining when a party must re-register copyrightable material after a new version has been made, there are no standards for determining when a new or revised version resets the five-year clock for purposes of § 410(c) copyright validity.

b. Publication

There is a second and perhaps more fundamental problem concerning the § 410(c) presumption of copyright validity. The statute requires that a court begin its countdown five years after first publication of a copyrightable work. Therefore, an underlying question must be whether plaintiffs' computer programs have been "published" at all. For reasons stated below, I find that they have not.

"Publication" is defined in the 1976 Copyright Act as

[T]he distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending. The offering to distribute copies of phonorecords to a group of persons for purposes of further distribution, public performance, or public display, constitutes a publication. A public performance or display of a work does not of itself constitute publication.

17 U.S.C. § 101.

This definition codifies the concepts of limited and general publication developed under the 1909 Act.⁵ A "limited publication" is not considered to

⁵ Under the 1909 Act, a general publication was "such a dissemination of the work of art itself among the public,

have been "published" as that term is used in the Copyright Act.

Based on the facts as alleged by plaintiffs, deemed to be true on this motion to dismiss, neither of the two computer programs in question were the subject of "publications" as statutorily defined. The programs were created for the limited purpose of servicing defendants, and in fact were tailored specifically for defendants' specific business needs. There is no indication that the programs were or were ever intended to be distributed to the general public. Rather, in his declaration, Rosen attests that:

Logicom never authorized WPS or any other entity or individual to reproduce, duplicate, copy, sell or otherwise disclose or disseminate any portion of any of the programs or any portion of any of the operating instructions and user manuals for the programs which Logicom developed and made available to WPS personnel.

First Declaration of Richard Rosen, Apr. 27, 2004, at ¶ 18. *See also Ez-Tix, Inc. v. HIT-Tix*, 919 F.Supp. 728, 731, 735 (S.D. N.Y.1996) (holding that program created by plaintiff for limited use by defendant was "not published" under the Copyright Act).

In these circumstances, the applicability to the case at bar of § 410(c)'s presumption of validity is doubtful. According to the plain text of the statute, any certificate of registration made "before or

as to justify the belief that it took place with the intention of rendering such work common property," while a limited publication would "communicate the contents of a [work] ... to a definitely selected group and for a limited purpose, and without the right of diffusion, reproduction, distribution or sale...." *American Vitagraph, Inc. v. Levy*, 659 F.2d 1023, 1027 (9th Cir.1981) (citations omitted).

within five years after first publication” shall constitute prima facie evidence of the copyright's validity. The evidentiary weight accorded the certificate “made thereafter” lies within the discretion of the trial court. However, nothing in the Act speaks to what kind of evidentiary weight should be afforded, prima facie or otherwise, to unpublished works. If, as I now conclude, § 410(c) does not mandate a presumption of copyright validity in this case, then the weight, if any, to be accorded plaintiffs' certificates of copyright falls within my discretion.

c. Logicom's dissolution

*7 Defendants next argue that because the corporation had been dissolved, Logicom could not have been the proper “author” of the two computer programs, as is attested in the certificates of registration. Indeed, Logicom remained a dissolved corporation—that is, a non-entity—both when the programs were created in 1995 and when they were registered in 2002. Defendants say it would be nonsensical that a non-entity could “author” and hold valid copyrights to proprietary material.

On the other hand, according to their allegations, the individual plaintiffs believed in good faith to have a viable corporation, both when the programs were created and when they were registered in 2003. As Rosen has declared, neither he nor Boriotti were aware of the corporation's having been dissolved. During the period of dissolution, they continued in good faith to conduct business as usual, file corporate tax returns, and pay franchise taxes, which the state accepted. They also received official correspondence from the state addressed to the company. None of Logicom's assets were ever divested during this time, including the two computer programs.

Once the individual plaintiffs were aware of the dissolution, they took proper course of action to have the dissolution annulled. Learning that the name Logicom, Inc., was already in use by another company, they changed their own corporate name to Logicom Inclusive, Inc. The State of New York then reinstated the company without contest.

Under these circumstances, I find that the annulment of Logicom's dissolution in May of 2003 should have retroactive effect, so that Logicom was a legal entity capable of authoring and owning copyright of the two computer programs at issue.

In a case cited by defendants, *Foamation, Inc. v. Wedeward Enterprises, Inc.*, 947 F.Supp. 1287 (E.D.Wis.1996), which in any event I am not required to follow, Foamation, Inc., a manufacturer of foam cheese wedge hats, brought an action against a rival faux-cheese hat producer. Judge Callahan held that the manufacturer did not have a valid copyright for two principal reasons. First, the “likely author” of the cheese wedge hat was not the manufacturer but third party citizen Amerik Wojciechowski. *See id.* at 1297. Second, even if the company could be entitled to some claim to copyright, that claim was lost when Foamation, Inc. failed to properly affix copyright notices on their manufactured cheese wedge hats prior to distribution.⁶ *Id.*

Neither of those factors are relevant in the case before me. Only in dicta did Judge Callahan note, “Even assuming, arguendo, Foamation were entitled to a copyright, its application would seem to contain a number of misstatements and

6 Under the Copyright Act, as it had existed prior to March 1, 1989 amendments, publication of a work without proper copyright notice dedicated the work to the public domain. *Foamation, Inc.*, 947 F.Supp. at 1295.

omissions.... Foamation, Inc. is listed as the author of the work. That cannot be, because Foamation, Inc. did not come into legal existence until July 1993.” *Id.* at 1297 n. 8. By contrast, it is undisputed that Logicom was properly incorporated on October 17, 1990, prior to the creation of the programs and their registration.

*8 In conclusion, I hold that Logicom, Inc.⁷ has valid copyrights in the two computer programs at issue in this case, for which it may present claims for infringement as stipulated in § 411 of the Copyright Act.

2) Does Logicom have rights to Stefanowski's work?

Plaintiffs acknowledge that they did not create the computer programs alone. Throughout the course of their business relationship with WPS, they received assistance from independent contractors, included among them the purported defendant Stefanowski. Defendants argue that plaintiffs did not come to a binding agreement with Stefanowski that his work would be a work made for hire. If this is so, then Stefanowski is the author of his own contributions, and accordingly, entitled under the Copyright Act to exchange his copyright rights with WPS for due consideration.

17 USC § 201(b) of the Act states:

Works Made for Hire

In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed

otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.

A work made for hire is defined in 17 U.S.C. § 101 as follows:

A “work made for hire” is-

(1) a work prepared by an employee within the scope of his or her employment; or

(2) a work specially ordered or commissioned for use as a contribution to a collective work, as part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.

It is undisputed that Stefanowski was not an employee of Logicom. Thus Logicom must establish the following in order to determine that Stefanowski's work was a “work made for hire”:

a. That Logicom “specially ordered or commissioned” the work,

b. That it did so for use as one of the nine categories listed in subsection (2) of the definition,

c. And that the parties “expressly agreed in a written instrument signed by them that the work shall be considered a work made for hire.”

a. Logicom specially ordered or commissioned the work

In *Playboy Enterprises, Inc. v. Dumas*, 53 F.3d 549, 560-61, 563 (2d Cir.1995), the Second Circuit held that the “specially ordered and commissioned” requirement of the 1976 Act has

⁷ The author and owner of these copyrights remains Logicom, Inc., and not the individual plaintiffs Boriotti or Rosen, whose names do not appear in the certificates of registration.

“essentially the same meaning as” the “instance and expense” test of its predecessor, the Copyright Act of 1909. It went on to hold that under the test, “the district court must determine ... whether Playboy was the ‘motivating factor’ in the creation of the works.”*Id.*

The “written instrument” that plaintiffs rely on to demonstrate that Stefanowski's work was a work for hire is a consulting contract signed by Rosen and Stefanowski in January 2002. *See* First Rosen Declaration, Exhibit H. It is clear from this contract that Logicom paid Stefanowski a sum certain for his work. Logicom also assigned Stefanowski the tasks of making targeted modifications to the computer programs and performing other specific services on site at WPS. Given these circumstances, plaintiffs were clearly the motivating factor behind the creation of Stefanowski's work. Therefore, Stefanowski's work meets the “specially ordered or commissioned” requirement.

b. Stefanowski's work was for use as part of a “compilation”

*9 To be a “work made for hire” the work in question must also fit under one of nine categories listed in subsection (2) of the definition. “Computer program” is not listed as a category. However, the case law makes clear that nonliteral elements of a computer program are properly considered a “compilation” insofar as the concepts of selection, arrangement and organization, central to the compilation doctrine, are included in the analysis of a computer program's structure. *See Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 711-12 (2d Cir.1992); *Harbor Software, Inc. v. Applied Systems, Inc.*, 925 F.Supp. 1024, 1047 (S.D.N.Y.1996).

Given that narrow definition of “compilation,”

there may come a time in this case when the components of the computer programs will need to be more closely examined and parsed, to remove from consideration any elements which are excluded from protection. Plaintiffs might not have a claim to copyright in those aspects of the programs which Stefanowski created and are not considered part of the compilation, and damages may need to be reduced accordingly. At this juncture of the case, however, it is sufficient to find that the programs can be considered compilations.

c. Parties expressly agreed that Stefanowski's work was a work for hire

Finally, I must determine whether the parties have expressly agreed that the work shall be considered a work made for hire. The terms of Logicom's Consultant Contract with Stefanowski stipulate, *inter alia*, the following:

6. Ownership. It is understood that Work Product created by Consultant in furtherance of the services performed by Consultant to Company under this agreement shall be the sole property of the Company for the sole use of the Company and its clients. Consultant shall not use such Work Product for any purpose without the written consent of the Company. If a court of law indicates that such Work Product shall be owned by Consultant, it is understood that Consultant shall grant to Company rights to use such Work Product for itself and its clients without any additional compensation or consideration by Company to Consultant. Furthermore, if a court of competent jurisdiction determines that Consultant is the rightful owner of such Work Product, then Consultant warrants to Company that he shall not use or disclose such Work Product to any other person, without prior written consent of Company.

This contract was signed by both parties on January of 2002.⁸ One year later, Logicom entered into a Consulting Agreement with another independent contractor, Jan Merek Pakulski. Unlike its contract with Stefanowski, this contract expressly uses the phrase “work made for hire” in the Ownership subsection of the contract:

All work materials developed or provided by Consultant under this Agreement and any prior Agreement between the parties hereto shall be deemed to be work made for hire and owned exclusively by Company.

*10 Pakulski Consulting Contract, ¶ 6.

However, Stefanowski's contract stipulates that “the Work Product created by Consultant ... shall be the sole property of the Company for the sole use of the Company and its clients.” Consultancy Contract ¶ 6. Paragraph 5 of the contract also stipulates, “Consultant shall have no rights relating to such Work Product unless Company grants Consultant rights to use such Work Product which shall be evidenced only in writing.”

In the Playboy case cited supra, Playboy Enterprises, Inc. and Special Editions, Ltd. (“Playboy”) sought a declaratory judgment that it was the sole owner of all ownership rights to works of art created by an artist which appeared in its magazine. At issue in that case was whether legend endorsements printed on the back of Playboy's paychecks to the artist established an express written agreement that the artist's work constituted a work for hire.

The Second Circuit rejected Playboy's contention

⁸ Logicom was itself an independent contractor who worked for WPS. However, there is no evidence of any written agreement, express or otherwise, indicating that Logicom's work for WPS was a work made for hire.

that language stating “By endorsement of this check, payee acknowledges payment in full for the assignment to Playboy Enterprises, Inc. of all right, title and interest in and to the following items” satisfied the requirement of 17 U.S.C. § 101(2) that parties “expressly agree” in writing that a work shall be considered a work made for hire. *Playboy Enterprises, Inc.*, 53 F.3d at 560. Conversely, it found that language stating, “BY ENDORSEMENT, PAYEE: acknowledges payment in full for services rendered on a work-made-for-hire basis in connection with the Work named on the face of this check,” did contain language sufficient to meet the test.⁹ *Id.*

A district court in another circuit has taken Playboy to mean that in the Second Circuit the inclusion-and only the inclusion-of either the phrase “work made for hire” or “work for hire” can satisfy § 101(2). See, e.g., *Armento v. Laser Image, Inc.*, 950 F.Supp. 719, 730 (W.D.N.C.1996) (“The Second Circuit has indicated that the omission [of the words ‘work for hire’] is fatal.”).

By contrast, courts in other circuits have found the § 101(2) requirement satisfied even in the absence of the “work for hire” language. For instance, the contractual language at issue in *Armento* stipulated that the work in question “remain the sole property of [defendant] The Laser Image, and cannot be reproduced or used for any other purpose by [independent contractor] Cumulus without the written consent of The Laser Image.” *Id.* at 722. The district court held that the language—which is closely analogous to the language in Logicom's contract with Stefanowski—“was sufficiently express to satisfy §

⁹ A third set of checks also containing the language “work-made-for-hire” was also found to meet the test. *Id.*

101(2).”*Id.* at 732. Speaking at length on the issue, the court noted that the legislative history as well as concerns of “enhancing predictability and certainty of copyright ownership” merited a less constrictive view of the § 101(2) writing requirement than seemingly provided for by the Second Circuit in *Playboy*.

*11 Likewise, the Ninth Circuit noted in *Warren v. Fox Family Worldwide, Inc.*, 328 F.3d 1136, 1141 (9th Cir.2003) that “there is no requirement, either in the [Copyright] Act or the caselaw, that work-for-hire contracts include any specific wording.”

To hold that § 101(2) demands the presence of the phrase “works for hire” in all would-be work for hire agreements would, to quote *Armento*, certainly be a “parsimonious reading” of the statute. 950 F.Supp. at 731. Moreover, I agree with the view stated in the leading treatise that this is not what the Second Circuit commands in *Playboy*, but rather, that the case “can be harmonized with the liberal view that appropriately unambiguous language, even though it lacks the words either ‘specially commissioned’ or ‘work-for-hire,’ may still suffice to import the legal result of that doctrine.” 1 M. & D. Nimmer, *Nimmer on Copyright*, § 5.03[B][2][b] (2004).

Nowhere in *Playboy* does the Second Circuit mandate that the words “work for hire” must be used *in haec verba*. That is instead an inference based on the Court's interpretation of language written on the back of different paychecks at issue in that case. It is true that two of the paychecks at issue in that case contained the language “work-made-for-hire” while one did not. Yet this does not necessarily lead to the conclusion that *only* contractual language with these “talismanic words”¹⁰ can lead to a work-for-hire relationship.

¹⁰ *Warren*, 328 F.3d at 1141.

Clearly there were other factors that the Second Circuit took into consideration in that case. The terse, two-sentence contractual language on the back of the paychecks referred to assignment of interest, a conceptually different notion from works made for hire under copyright law. Moreover, there was a question as to whether the parties intended to enter into a work-for-hire arrangement at all, which was not clarified by the language of the paychecks. While that particular question lay more at the heart of the Court's analysis of whether a contract can be written and signed after the creation of a work, the uncertainty towards the parties' intent certainly played a role in the Court's analysis of works made for hire as well.

As prudent as it may be, parties need not always use the phrase “works made for hire” in order to fulfill the demands of the definition of the phrase under § 101(2). I find that the language in Stefanowsky's Consultancy Contract sufficiently expresses the parties' intention to enter into a work for hire agreement.

3) Does WPS have an implied license to use the disputed work?

Defendants contend that based upon the approximately \$70,000 a month WPS paid Logicom for its services from April 1999 to March 2003, a total payment that exceeds \$3 million, WPS acquired an irrevocable nonexclusive license to use the software programs.

Ordinarily, to transfer ownership of a copyright parties must do so by way of a written instrument. However, a nonexclusive license is “a creation fashioned by the courts for when parties intend to transfer a copyright, but fail to do so in writing.” *Holtzbrinck Publ'g Holdings, L.P. v. Vyne Communications, Inc.*, No. 97 Civ. 1082, 2000

WL 502860 (S.D.N.Y. Apr. 26, 2000), at *4. *citing Graham v. James*, 144 F.3d 229, 235 (2d Cir.1998). Such a license need not be executed in writing, but may be granted orally or implied from the conduct of the parties. It is granted when “(i) a person (the licensee) requests the creation of a work; (ii) the creator (the licensor) makes that particular work and delivers it to the licensee; and (iii) the licensor intends that the licensee copy and distribute his work.” *Holtzbrinck*, 2000 WL 502860, at *4.

***12** There is no indication that Logicom, as licensor, intended to transfer ownership of its copyrights to defendants, either orally or through the parties' conduct. Rather, the facts as alleged in the complaint, which I am bound to accept on this motion to dismiss, indicate the opposite to be true. According to the complaint, on or about November 2002, various WPS officers, including Butler and Macri, initiated negotiations with Boriotti and Rosen during which they raised the possibility of a licensing arrangement that would allow WPS to access Logicom's source code and modify its software as needed. *See* Complaint ¶ 23. Negotiations advanced as far as fashioning “the outlines of a licensing and buyout agreement” by February 2003, but then broke down short of execution. *Id.* at ¶ 24, 27. There is no indication that defendants had obtained a license, implied or otherwise, to access Logicom's source code and modify its software prior to the beginning of the negotiations. Therefore, the failed negotiations evidence the *absence* either of the parties' intention to transfer ownership of copyright, or of Logicom's intention to allow defendants to copy and distribute its work. I hold that defendants do not have an implied license to use plaintiffs' work.

Holtzbrinck was an action involving a dispute over the ownership of the copyright in a magazine's website, where the Court determined that the

publisher/plaintiff had an implied license to use defendant's work. This case differs materially from *Holtzbrinck* in several respects. In *Holtzbrinck*, Vyne, the licensor, already had a prior relationship with Holtzbrinck, the licensee, where Vyne had created and transferred a website for a Holtzbrinck subsidiary. In addition, Vyne provided Holtzbrinck with password access to the copyrighted website, and placed a copyright notice on the website indicating that Scientific American, Inc. (of which Holtzbrinck was the parent company) was the copyright owner, and without reserving any similar notice of Vyne's claim to ownership. Here, in stark contrast, only plaintiffs and their subcontractors had password access to the software, and the copyright notices that were posted on the logon screens, in the source code, and on the instructions and user manuals produced for end-users all identified Logicom as the copyright owner, not defendants. Finally, in *Holtzbrinck*, Vyne's sole incorporator, Alan Hall, admitted in an affidavit to his understanding that Holtzbrinck would ultimately own the website files. No such admission was ever made by any of the plaintiffs in the case at bar. While the history and course of dealings in *Holtzbrinck* lead to the conclusion that Vyne “conducted itself in a manner commensurate with granting Holtzbrinck a nonexclusive implied license,” *id.* at *5, the parties' conduct in this case does not lead to that conclusion, and is indeed inconsistent with it.

4) The 17 U.S.C. § 117 exception

***13** On the other hand, if defendants can establish they are owners of a *copy* of Logicom's computer software, they may have a right, under 17 U.S.C. § 117(1), to make modifications to their copy of Logicom's software “as an essential step in the utilization” of the programs, even without plaintiffs' permission. This is an exception to the more general rule in copyright law that

unauthorized input of copyrightable material is an infringing action. In order to qualify, defendants must show, first, that they are legitimate owners of copies of plaintiffs' software, and second, that their adaptations are essential to the utilization of the computer programs in conjunction with those machines in which the programs were copied.

a. Ownership

Plaintiffs insist that defendants are not legitimate owners even of copies of the computer software for the plain reason that they never sold, and defendants never purchased, the programs. Defendants, meanwhile, contend that they paid for and possess copies of the registered programs and are therefore rightful owners of the copies.

Determining whether a party is a rightful owner of a copy of a proprietary program is not a difficult proposition in the ordinary circumstance where a consumer purchases a copy of a computer program—whether on a tangible floppy disk or CD-ROM, or downloading it online—thereby becoming simultaneously a licensee of the program and outright owner of the copy.¹¹ In this case however, Logicom uploaded its software onto WPS computers, but retained passwords that prevented defendants not only from obtaining the source code but from making regular, necessary updates. While defendants paid plaintiffs \$70,000 a month, plaintiffs contend that this money was strictly for their services rather than for ownership of a copy of their programs.

There is some precedent for ruling that defendants should be considered to have purchased a copy of

plaintiffs' software. In *Aymes v. Bonelli*, 47 F.3d 23 (2d Cir.1995) (“Aymes II”)—the facts of which are laid out in more detail in *Aymes v. Bonelli*, 980 F.2d 857 (2d Cir.1992) (“Aymes I”)—defendant hired plaintiff to create computer programs to facilitate defendant's inventory, record-keeping, and sales efforts. Plaintiff did most of his programming in defendant's office, and on defendant's computer. He was either paid per project or by the hour, and the programs were tailored to defendant's specific needs. *Aymes I*, at 859. For his efforts, plaintiff was paid a total of over \$70,000. *Aymes II*, at 25. While the programs were registered to the plaintiff with the U.S. Copyright Office, the Second Circuit upheld the District Court's holding that the plaintiff “sold the program” to defendant. *Id.* at 24, 25 (“Aymes was paid by Island to design a program specifically for Island's use, and for those efforts he earned in excess of \$70,000. Island, therefore, had a right to use the program for its own business purpose.”). In those circumstances, the Court of Appeals regarded defendants as “rightful owners of a copy” of the program, and authorized by § 117(1) to make changes to it which “were necessary measures in their continuing use of the software in generating their business.” *Id.*

^{*14} In *Krause v. Titleserv, Inc.*, 289 F.Supp.2d 316 (E.D.N.Y.2003), a case somewhat analogous to the instant one, plaintiff, a computer programming consultant, created over 35 computer programs for the named defendant, a title service agency. After their relationship had terminated, plaintiff took the source codes for two of the programs with him, preventing defendant from making modifications to the software. While plaintiff was seeking copyright protection for the programs, defendant managed to reverse-engineer the programs, thereby obtaining access to the source codes and modifying the software to its specifications. The District Court, adopting the

¹¹ See, e.g., *ProCD, Inc. v. Zeidenberg*, 908 F.Supp. 640, 648-49 (W.D.Wis.1996), *rev'd on other grounds*, 86 F.3d 1447 (7th Cir.1996) (holding consumer who had purchased software and copied it onto his computer's hard drive was exercising his valid entitlement to do so under 17 U.S.C. § 117).

Report and Recommendation of the Magistrate Judge, ruled that this was an acceptable practice under § 117 because defendant owned a copy of the programs and adapted them only as an essential step in their utilization. *See id.*, at 317.

There is no indication that the plaintiff in *Krause* ever intended to sell copies of his programs to defendant outright. Rather, plaintiff received in excess of \$350,000 in payment, presumably for performing “numerous services,” including “creating and developing its computer software systems.”*Id.*, at 318. Nevertheless, the Magistrate Judge found that “at the very least, [defendant] Titleserv owned a copy of the program.”*Id.*

Here, plaintiffs argue that they had an exclusive right to possess even copies of the computer programs created for the defendants' business use. While plaintiffs concede that the programs were “installed on WPS's computers for use by WPS employees as end users,” *Plaintiffs' Reply Memo*, at 6, they do not concede defendants' ownership of the source code. It is the source code which plaintiffs allege is critical in this case since only by making modifications to the source code can the programs be of value to defendants.

Whether the defendants at bar rightfully own a copy of Logicom's software presents a question of substance. However, I am not prepared to dismiss plaintiffs' complaint on the basis of that issue. Defendants at bar may have paid plaintiffs a large sum of money over several years—over \$3 million. However, defendants have not yet provided evidence consistent with the high standard in a motion to dismiss—that no relief can be granted under any set of facts consistent with the allegations—that any portion of this payment was made to purchase a copy of plaintiffs' software. It is at least conceivable that parties intended a business relationship where once defendants were

no longer in need of plaintiffs' services, plaintiffs were to take with them any and all copies of proprietary software, even those currently existing on WPS's computers. In such a scenario, defendants do not have ownership rights even to a copy of the computer program.

b. Adaptations and modifications

On the other hand, if defendants can establish rightful ownership of copies of Logicom's software, they appear to fall within the § 117 exception. An owner of a copy of a computer program is authorized to make “another copy or adaptation of that computer program provided ... that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner.” 17 U.S.C. § 117(1).

***15** Plaintiffs argue that this statutory text should be read narrowly, so that the modifications defendants made to plaintiffs' programs exceeded the limits of the statute. In support of their argument, plaintiffs cite the following passage from the Final Report of the National Commission on New Technological Uses of Copyrighted Works 32 (July 31, 1978) (“CONTU”):

Because of a lack of complete standardization among programming languages and hardware in the computer industry, one who rightfully acquires a copy of a program frequently cannot use it without adapting it *to that limited extent which will allow its use in the possessor's computer.*

(Emphasis added.)

I have already addressed the issue of whether defendants rightfully acquired a copy of plaintiffs' programs. With respect to the boundaries of

adaptation, they are not as constrictive as plaintiffs may believe. This is demonstrated in further passages of the CONTU Report not cited in plaintiffs' briefs:

The conversion of a program from one higher-level language to another to facilitate use would fall within this right [of adaptation], *as would the right to add features to the program that were not present at the time of rightful acquisition....* Again, it is likely that many transactions involving copies of programs are entered into with full awareness that *users will modify their copies to suit their own needs*, and this should be reflected in the law.

CONTU, at 13-14 (emphasis added).

Defendants made modifications to the programs that were essential for their continued business use. There is no evidence that they distributed the programs to third parties in the course of doing so. Therefore, I find that the modifications made by defendants were within the limits of essential utilization contemplated in the statute.

Plaintiffs argue that *Aymes* and *Krause*-where similar modifications were upheld as proper under § 117-are not analogous because plaintiffs in those cases failed to reserve the exclusive right to modify the programs they created. Here, plaintiffs contend that they *did* retain an exclusive right to modify the programs, since only they and their subcontractors knew the passwords that were necessary to gain access to the programs' source codes.

However, passwords are not enough to establish an exclusive right to modification. This is clearly demonstrated by *Krause*, where, like plaintiffs here, *Krause* prevented Titleserv from obtaining access to the source codes for his programs.

Titleserv was able to obtain the source codes, not by acquiring any passwords from *Krause* but by successfully reverse-engineering the programs. *Krause*, 289 F.Supp.2d at 317. The court held that *Krause* had no exclusive right to modify the programs, despite the presence of source code encryption. This conclusion accords with the CONTU Report, to which I return once more. According to the Commission, "Should proprietors feel strongly that they do not want rightful possessors of copies of their programs to prepare such adaptations, they could, of course, make such desires a contractual matter." CONTU at 14. Merely creating password protection for computer programs is not the equivalent of engaging in a contractual relationship with another party.

***16** Nonetheless, because defendants have not on the present record established ownership of copies of the programs, they have also failed at this stage of the litigation to demonstrate that their actions fall within the § 117 exception.

5) Has Logicom failed to state a claim for the individual defendants' liability for infringement?

Defendants argue that plaintiffs have failed to state a claim for the liability of individual defendants Butler, Macri, Russell, and Stewart for copyright infringement. A corporate employee can be held personally liable for copyright infringement "if the officer is a moving, active, conscious force behind [the defendant corporation's] infringement." *Mattel, Inc. v. Robarb's, Inc.*, No. 00 Civ. 4866(RWS), 2001 WL 913894, at *8 (S.D.N.Y. Aug. 14, 2001) (citations omitted).

Plaintiffs' complaint and proposed amended complaint allege that each individual defendant

was responsible for inducing subcontractor Stefanowski to breach his contract with Logicom, in furtherance of defendants' copyright infringement; that they instructed Stefanowski to copy, modify, and rewrite the programs, and teach others how to do so; and that, generally speaking, they supervised the infringing activity. Plaintiffs also allege that Stefanowski reported to and was supervised by Butler in carrying out infringing activity; and that Butler reported to Stewart and Russell, who both approved of and acted in furtherance to the infringement. Furthermore, plaintiffs allege both that Macri directed plaintiffs to leave WPS's premises, in furtherance of the infringement, and that Macri acted under orders from Russell in doing so. Finally, plaintiffs note that each defendant had a financial interest in, and benefitted financially from, the infringing activity. *Plaintiff's Opposition Memo*, at 7-8.

Based on the foregoing, I find that plaintiffs have alleged in detail sufficient to survive a motion to dismiss that each of Butler, Macri, Russell, and Stewart was a moving, active, conscious force behind infringement in order to survive this motion to dismiss.

Having concluded that plaintiffs' copyright infringement claim survives defendants' motion to dismiss, I now address plaintiffs' state and common law claims.

B. State and Common Law Claims

Section 301(a) of the Copyright Act preempts state statutory and common law rights that are "equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106...."17 U.S.C. § 301(a).Section 106 affords a copyright owner the exclusive right to reproduce the copyrighted work, prepare derivative works, distribute copies of the work,

perform the work publicly, and display the work publicly. State law rights that "may be abridged by an act which, in and of itself, would infringe one of the exclusive rights' provided by federal copyright law" are preempted by § 301. *Computer Assocs. Int'l. Inc. v. Altai, Inc.*, 982 F.2d 693, 716 (2d Cir.1992). In order for a state cause of action to survive, it must have an "extra element" beyond mere reproduction, preparation of derivative works, distribution, performance or display, that "changes the nature of the action so that it is *qualitatively* different from a copyright infringement claim." *Id* (citations omitted). In order to determine whether a state law claim meets this standard, the Second Circuit instructs that I must "determine what plaintiff seeks to protect, the theories in which the matter is thought to be protected and the rights sought to be enforced." *Id* (citations omitted). An action "will not be saved from preemption by elements such as awareness or intent, which alter the action's scope but not its nature." *Id* (citations omitted).

1) Conversion

*17 Count II of plaintiffs' proposed amended complaint alleges that defendants "are wrongfully in possession of the software programs and have willfully and without justification converted the programs to their own use." Amended Complaint, ¶ 79.

The tort of conversion involves the wrongful possession of property, in a manner that deprives its use and possession by the rightful owner. Insofar as a tort of conversion relates to interference with the actual tangible (or intangible) good, it should not be preempted by federal copyright law. However, if a party seeks damages for unauthorized use by defendants in a manner that is equivalent with rights protected by § 106, such a claim is preempted.

This distinction was made clear in *Harper & Row, Publishers, Inc. v. Nation Enters.*, 723 F.2d 195 (2d Cir.1983), *rev'd on other grounds*, 471 U.S. 539 (1985). At issue in that case were the memoirs of former President Gerald Ford, which The Nation Associates, Inc. ("The Nation") obtained from an anonymous source, and improperly used to publish an article in their periodical. The Court noted that the plaintiffs' cause of action for common law conversion, insofar as it related to the "unauthorized publication" by defendants, was preempted by copyright law. *See id.* at 201 ("If unauthorized publication is the gravamen of their claim, then it is clear that the right they seek to protect is coextensive with an exclusive right already safeguarded by the Act—namely, control over reproduction and derivative use of the copyrighted material. As such their conversion claim is necessarily preempted.").

In the alternative, plaintiffs suggested it was possession of the physical manuscript, that is, "the papers themselves" which "lay at the foundation for their claim." *Id.* Whatever the value of the intangible copyrighted material, it is not a stretch of the imagination to say that the value of the physical pages themselves would not be high. In any event, the Court held that even this version of plaintiffs' conversion claim would be dismissed, for "[m]erely removing one of a number of copies of a manuscript (with or without permission) for a short time, copying parts of it, and returning it undamaged constitutes far too insubstantial an interference with property rights to demonstrate conversion." *Id.*

Plaintiffs in the case before me also assert that defendants have wrongfully interfered with their "possession" of the computer programs. However, a close reading of plaintiffs' second claim makes clear that it is actually based not on the physical

possession of plaintiffs' programs itself, but defendants' derivative use of the programs. Thus, ¶ 80 of plaintiffs' proposed amended complaint reads, "The software programs are invaluable because *their use by defendants* enables WPS to conduct its business" (emphasis added). Plaintiffs' state law claim for conversion is therefore preempted by the Copyright Act.

2) Unjust enrichment

*18 On its face, plaintiffs' next state law claim is for unjust enrichment, which defendants contest is preempted by federal law. Claims for unjust enrichment are generally preempted by copyright law. *See Briarpatch Ltd. L.P. v. Geisler Roberdeau, Inc.*, No. 99 Civ. 9623(RWS), 2002 WL 31426207, at *11 (Oct. 30, 2002) (citing cases). In their proposed amended complaint, plaintiffs allege that defendants have misappropriated Logicom's software and used the programs to make derivative works for their own benefit. An unauthorized exploitation of intangible property in this manner violates rights protected by the Copyright Act and a common law claim is therefore preempted. *Universal City Studios, Inc. v. Nintendo Co. Ltd.*, 615 F.Supp. 838, 857 (S.D.N.Y.1985) ("It is control over the right to reproduce Donkey Kong that Universal is alleged to have misappropriated and profitted from, and this right is the very essence of the copyright protection embodied in § 106.").

However, plaintiffs allege that the "extra element" in their unjust enrichment claim that qualitatively distinguishes it from copyright infringement is a breach of contract by defendants. If this is the case, then Count III of plaintiffs' complaint is not actually an unjust enrichment claim at all but a claim for breach of contract. In fact, ¶¶ 85, 86 of plaintiffs' proposed amended complaint states that a "constructive contract existed between

Logicom and WPS,” which contract WPS has “willfully and without justification breached ... by appropriating Logicom's software to its own use.”

Unlike claims for unjust enrichment, state law claims for breach of contract are generally *not* preempted by the Copyright Act. *See* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 132, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5748 (“nothing in the bill derogates from the rights of parties to contract with each other and to sue for breaches of contract”). However, the breach of contract claim must be based on allegations of a contractual right not existing under copyright law. *American Movie Classics Co. v. Turner Entm't Co.*, 922 F.Supp. 926, 931 (S.D.N.Y. Apr. 11, 1996), *citing* *National Car Rental System, Inc. v. Computer Assoc. Int'l, Inc.*, 991 F.2d 426, 431-33 (8th Cir.), *cert denied*, 510 U.S. 861 (1993). While a copyright is a right against the world, contracts generally only affect their parties, and so do not create “exclusive rights.” *Torah Soft Ltd. v. Drosnin*, 224 F.Supp.2d 704, 717 (S.D.N.Y.2002), *citing* *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1454 (7th Cir.1996). Accordingly, “the extra element that saves a contract claim from preemption is the promise itself.” *Architectronics, Inc. v. Control Systems, Inc.*, 935 F.Supp. 425, 439 (S.D.N.Y.1996).

Here plaintiffs allege that a “constructive contract” existed between the parties. If so, defendants have promised, through a contract *implied in fact*, not to make derivative works based on plaintiffs' computer programs. Since this promise makes plaintiffs' claim qualitatively different from a copyright infringement claim, plaintiffs' breach of contract claim is not preempted.

3) Malicious interference with contract

*19 Count IV of plaintiffs' complaint is for

malicious interference with contract. In this circuit, “it is well settled that claims for tortious interference” based on rights equivalent to those protected under copyright laws, “are preempted.” *American Movie Classics Co.*, 922 F.Supp. 932. *See also* *Harper & Row Publishers, Inc. v. Nation Enters.*, 501 F.Supp. 848, 852-53 (S.D.N.Y. Oct. 21, 1980), *aff'd*, 723 F.2d 195 (2d Cir.1983), *rev'd on other grounds*, 471 U.S. 539 (1985). Moreover, that a tortious interference claim requires the plaintiff to plead additional elements such as awareness and intentional interference, “undoubtedly because these elements are not required under the copyright laws, does not automatically preclude a finding of preemption.” *Harper & Row*, 501 F.Supp. at 853.

What distinguishes claims for tortious interference and breach of contract is that the latter involves breach of a specific contractual promise made by defendants. No such promise lies in a tort for malicious interference. *See Architectronics, Inc.*, 935 F.Supp. at 439 (“Tort-like copyright infringement claims, unlike breach of contract claims, do not require a promise by the defendant to refrain from using protected subject matter.”).

Plaintiffs allege that defendants willfully interfered with their rights by inducing Stefanowski to disclose proprietary information to defendants, and work for defendants during the one-year period following the termination of the contract. Proposed Amended Complaint ¶ 93. The underlying right that this claim is based on is plaintiffs' alleged exclusive rights to modify and make derivative use of the programs. Since these are equivalent to rights formed in copyright law, plaintiffs' claim for malicious interference of contract is preempted by copyright law.

C. Insufficient Service of Process

Defendants move to dismiss the complaint against individual defendants Stewart, Russell, and Macri for failure to comply with the procedural requirements for proper service of process. Fed.R.Civ.P. 4, 12(b)(5).

Service of process may be effected pursuant to the law of the state in which the district court is located, or in which service is effected. Fed.R.Civ.P. 4(e)(1). In New York, that law is proscribed in N.Y. C.P.L.R. § 308, subsection 2 of which provides that service may be made:

by delivering the summons within the state to a person of suitable age and discretion at the actual place of business, dwelling place or usual place of abode of the person to be served and by either mailing the summons to the person to be served at his or her last known residence or by mailing the summons by first class mail to the person to be served at his or her actual place of business ... proof of such service shall be filed with the clerk of the court designated in the summons....

(emphasis added).

Defendants allege that Stewart, Russell, and Macri were not properly served. Defendants allege that plaintiffs failed to deliver the summons to Stewart's actual place of business, dwelling place or usual place of abode. Plaintiffs rebut with an affidavit of service stating that a copy of the summons and complaint was delivered to Stewart at his personal residence on March 20, 2004, by delivering copies to a concierge at Stewart's residence named Pat Carney. Declaration of Gary Sinawski, Exh. H. Defendants present no evidence rebutting plaintiffs' affidavit of service, nor do they deny this allegation. Therefore, I find that Stewart has been properly served.

*20 Defendants also allege that plaintiffs failed to deliver summons to Russell's actual place of business, dwelling, or usual place of abode. Plaintiffs present an affidavit of service indicating that a copy of the summons and complaint was delivered to Russell's place of business on March 16, 2004, by delivering copies to a "Michael Stann." *Id.* I presume that the affidavit was referring to Michael Stamm, general counsel to WPS, Inc., who accepted service on behalf of Butler and Macri. However, Stamm asserts that "[t]he process server did not ask me to accept service for Mr. Russell," Declaration of Michael W. Stamm, at ¶ 2, and he denies accepting service on Russell's behalf.

Finally, defendants assert that Macri was never mailed a copy of the summons and complaint. Plaintiffs offer no proof that such copies were mailed to Macri.

Plaintiffs shall provide proper service to Russell and Macri. They may do so either by rectifying the missteps defendants allege in their motion or otherwise sufficiently following the procedures of N.Y. C.P.L.R. § 308 or the federal rules of service of process. Failure to provide proper service by a time designated by this Court, will result in a dismissal of the complaint against defendants Russell and Macri.

D. Plaintiff's Cross-motion to Amend the Summons and Complaint and for Other Relief

1) Breach of contract claim against Stefanowski

Plaintiffs seek to add Stefanowski as a defendant and add a claim against him for breach of contract. Defendants assert that such a claim should be submitted to binding arbitration.

According to ¶ 8 of Logicom's consulting contract

with Stefanowski,

Any disputes that arise between the parties with respect to the performance of this contract shall be submitted to binding arbitration by the American Arbitration Association, to be determined and resolved by said association under its rules and procedures in effect at the time of submission and the parties hereby agree to share equally in the costs of said arbitration.

Plaintiffs argue that their breach of contract claim against Stefanowski should be litigated in a judicial court, despite the contractual language quoted above, because “willful misconduct of the sort Stefanowski engaged in is nonarbitrable.” Plaintiffs' Opposition Memo, at 11 fn.1.

Section 2 of the Federal Arbitration Act (FAA) states that a “written provision in ... a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction ... shall be valid, irrevocable, and enforceable, save upon such grounds as exist in law or in equity for the revocation of any contract.” 9 U.S.C. § 2. The purpose of the FAA was to “reverse the longstanding judicial hostility to arbitration agreements that had existed at English common law and had been adopted by American courts,” *Gilmer v. Interstate/Johnson Lane Corp.*, 500 U.S. 20, 26 (1991), and accordingly its provisions manifest “a liberal federal policy favoring arbitration agreements.” *Moses H. Cone Mem'l Hosp. v. Mercury Construction Corp.*, 460 U.S. 1, 24 (1983).

***21** Plaintiffs, as the party opposing arbitration, have the burden “to show that Congress intended to preclude a waiver of judicial remedies for the statutory rights at issue.” *Shearson/American*

Express, Inc. v. McMahon, 482 U.S. 220, 227 (1987). They have failed to do so here. They simply state, without any accompanying support for the position, that a breach of contract claim founded on “willful misconduct” is a type of claim that Congress intended to be nonarbitrable.

The terms of the FAA leave little room for the discretion of a district court judge. By its terms, I *shall* direct parties to proceed to arbitration on issues as to which an arbitration agreement has been signed. While certain, limited federal claims have been deemed nonarbitrable, there is no precedent for holding the same for plaintiffs' state law breach of contract claim. *See Dean Witter Reynolds Inc. v. Byrd*, 470 U.S. 213, 215, 218 (“ § 2 [of the FAA] require[s] that the District Court compel arbitration of the state-law claim”).

Since plaintiffs have stipulated to resolve contractual disputes with Stefanowski through arbitration, their motion to add Stefanowski as a defendant and add a claim against Stefanowski for breach of contract is denied.

2) Remaining Changes to Summons and Complaint

Finally, I grant plaintiffs motion to amend their summons in the manner proposed, to add “, Inc.” to “W.P. Stewart & Co.,” in the case caption, to add W.P. Stewart & Co., Ltd., parent company of WPS, Inc. as a defendant, and make the other changes shown in the proposed amended complaint with the exception of the changes sought which I have discussed in Part IV.D.1 of this opinion, *supra*.

V. CONCLUSION

For the reasons stated above, defendants' motion to dismiss is denied in part and granted in part.

Defendants' motion to dismiss plaintiffs' federal copyright claim is denied. Defendants' motion to dismiss plaintiffs' claims for conversion and malicious interference of contract are granted, as these claims are preempted by copyright law. Defendants' motion to dismiss plaintiffs' claim for unjust enrichment is denied. However, leave is granted to plaintiffs to amend Count III of their complaint to state a claim for breach of contract. Plaintiffs shall have until September 30, 2004 to effect personal service upon defendants Russell and Macri.

Plaintiffs' cross-motion is also denied in part and granted in part. Plaintiffs' motion to add Stefanowski as a defendant and add a breach of contract claim against him is denied. All other portions of plaintiffs' cross-motion is granted.

Plaintiffs are directed to file and serve an amended complaint consistent with this Opinion not later than August 31, 2004.

Within twenty-one (21) days after perfection of service upon defendants Russell and Macri, counsel for the parties are directed to confer with each other and submit to the Court the proposed discovery plan provided for by Rule 26(f), Fed. R. Civ.P.

***22** Counsel for the parties are directed to attend a status conference in Room 17C, 500 Pearl Street, at 4:30 p.m. on October 26, 2004.

The foregoing is **SO ORDERED**.